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C O N F I D E N T I A L SECTION 01 OF 04 TEL AVIV 000379

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FOR DEPUTY SECRETARY STEINBERG FROM AMBASSADOR CUNNINGHAM

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SUBJECT: SCENE SETTER FOR DEPUTY SECRETARY STEINBERG'S VISIT TO ISRAEL

Classified By: AMBASSADOR JAMES CUNNINGHAM, REASONS 1.4(b)(d)

¶11. (C) Summary: I am pleased to welcome you once again to Israel. Despite some areas of disagreement, we have a strong and dynamic bilateral relationship. The Strategic Dialogue has been an important mechanism since 2005. This will be a significant opportunity to engage the Israeli government at the most senior levels at a time of political uncertainty, with an international environment that feels markedly more hostile to Israelis than it did a year ago. While the domestic discussion of the GOI's relationship with the U.S. Administration has become more reasoned over the past few months, Israelis in and out of government seek constant reassurance about the commitment of the Obama administration. With engagement with the Palestinians stalled, regional relationships have suffered. Economic growth returned relatively early in Israel, and the primary lingering effect of the global financial crisis, unemployment, continues to subside. Growing the economy and increasing the participation of all segments of Israeli society are priorities for the current government, and they are striving to remain fiscally conservative while pursuing these goals. End Summary.

POLITICAL LANDSCAPE

¶12. (C) Overall, the Netanyahu government is solid. He has carved out a position firmly within the Israeli consensus, and he is not under any serious political pressure to change course. The opposition, led by former Foreign Minister Tzipi Livni, has had a difficult time finding traction for its argument that it generally agrees with Netanyahu's policy of a demilitarized Palestinian state next to Israel but claims his commitment to peace is weak and argues that lack of international confidence in his approach is leading Israel to disaster. Israelis remain concerned about

what they see as increasing attacks on their legitimacy from the Goldstone Report, potential criminal prosecutions in Europe under universal jurisdiction, and increased calls for boycotts.

¶3. (C) Netanyahu is serious in his calls for a resumption of negotiations, and he is aware that the lack of progress in the peace process is fueling much of the international hostility towards Israel, as well as putting some strain on the relationship with the United States. The limited freeze on settlement construction, while short of both the Palestinian and USG expectations, was a difficult decision that carries a real political and financial cost. Israelis believe that this limited freeze, combined with the actions the GoI has taken to improve conditions in the West Bank, should be sufficient encouragement to the Palestinians to restart negotiations. The GoI is not willing to offer any more gestures, and has doubts that any future gestures will yield a different response from the Palestinians.

¶4. (C) The Goldstone report is back in the headlines with the recent UN Secretary General report on the subject and the Israeli submission of an update on its own investigations regarding incidents during the war. Israeli leaders have developed a

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virtually obsessive reaction to the report, which they see as an assault on both the State of Israel and its democratic institutions, and an attempt to deny their right to self-defense against terrorism. DRL Assistant Secretary Michael Posner recently visited Israel and engaged with them on this issue in-depth. The Palestinian Authority's (PA) handling of the Goldstone report, as well as the PA's continued effort to convince the International Criminal Court to investigate Israeli actions in Gaza, have further complicated Israel's relations with the PA and pose a threat to both the potential for negotiations and the efforts to improve the situation in the West Bank. In the meantime, Israelis express satisfaction with both Fayyad's efforts to reform the PA and with the much improved performance of PA Security Forces, although they believe the PA's assessments of its abilities on both fronts are overly optimistic. In Gaza, Israel policy is caught on the horns of a dilemma over Gilad Shalit and Hamas's continued control within the Strip.

¶5. (C) On Iran, the GoI has accepted our policy of engagement, but Israel, particularly PM Netanyahu and DM Barak, continue to regard a nuclear Iran as an existential threat and a catastrophe for regional stability. The GoI has pushed for immediately enacting tougher sanctions and insists on keeping a military option available as a last resort. Iran was the main point of discussion during last

month,s visit of NSA Jones. Israeli experts within and outside government argue that how the Iranian nuclear issue is resolved over the next two years will determine the perception of U.S. power for years to come.

¶6. (C) Deteriorating relations with Turkey are also a concern, and many Israelis believe that Turkey will continue to move inexorably away from Israel and the West and closer to Syria and Iran due to internal politics and a new regional strategy. On Lebanon, most GoI officials believe another war with Hizbulah is just a matter of time, but they are in no rush to provoke anything and believe Hizbulah, at least for now, also has no interest in a fight. However, they repeat both publicly and privately their belief that all of Lebanon will be held accountable for Hizbulah actions now that Hizbulah is a partner in the government.

Lieberman and the MFA,s Image

¶7. (C) Israeli analysts of the GOI,s decision-making process have long argued that the MFA carries too little institutional weight when compared to the IDF and intelligence agencies. In the Netanyahu government, that imbalance has been further accentuated by the appointment of Avigdor Lieberman as Foreign Minister, as well as by the rising importance of the NSC and particularly of NSC head Uzi Arad in internal foreign policy discussions. Netanyahu offered Lieberman the Foreign Ministry fully aware of Lieberman,s record of

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provocative public remarks and his penchant for a pugilistic approach to diplomacy, but Netanyahu apparently calculated that the damage would be manageable and off-set by the political benefits in terms of coalition stability. In practice, Netanyahu has largely sealed Lieberman off from the most important foreign policy issues, including relations with the U.S. and negotiations with the Palestinians, with Netanyahu consulting most closely on these issues with Barak and President Peres. Nonetheless, Lieberman has inflicted damage on the conduct of Israel,s foreign relations and has forced Netanyahu on several occasions to intervene, most recently when Netanyahu was forced to reiterate Israel,s peaceful intentions toward Syria following threats by Lieberman against the Asad family. Deputy Foreign Minister Danny Ayalon,s actions, in particular his highly publicized effort to humiliate the Turkish Ambassador, have further contributed to the marginalization of the Foreign

Ministry and
may also cause lasting damage to Ayalon,s political future.

18. (C) The Israeli National Police have been investigating Lieberman,s alleged involvement in money laundering, obstruction of justice, and other charges for a number of years, but the investigation came to a head shortly after the coalition was formed. Last August, the INP recommended that the Attorney General indict Lieberman, but outgoing Attorney General Mazuz did not finish his review of the file before leaving office at the end of January. The new Attorney General, Yehuda Weinstein, is likely to need at least six months to study the issue. The Israeli political class assumes that Weinstein will issue an indictment and that Lieberman will step down, but the timing is uncertain. Meanwhile, Lieberman is keeping his commitment to Netanyahu to support the PM,s policies in the inner cabinet, even while his public comments continue to cause political heartburn.

ENERGY SECURITY

19. (C) The Israelis have made a strong push to include energy security in this year,s strategic dialogue. Israel,s Economic Council Chair Eugene Kandel proposed that the SD energy security discussion focus on:
a) Strategic reasons for and means of weaning the industrialized world from excessive dependency on petroleum (policy measures and technological means); and b),strategies to manage the economic and geopolitical effects of a shift to less dependence on petroleum. Israel would like to address how it can secure its energy supply for the future. Currently about 70 percent of electricity production comes from (imported) coal, and about 20 percent from natural gas, increasingly from the pipeline from Egypt, which came online in February 2008. Alternative energy, especially renewable sources, are a priority for the Government of Israel, and Israel strives to maintain OECD-consistent environmental standards. Commercial quantities of natural gas discovered offshore at the end of 2008 (with more following, including limited onshore oil reserves) have

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the potential to relieve Israel,s energy import dependence. Israel needs to make important decisions about how to manage its newly-discovered petroleum resources, including related infrastructure priorities, and will need to determine how large a role (domestic) natural gas should play in Israel,s energy mix. Israel anticipates that its bid for OECD membership will be approved soon. Once Israel joins the OECD, it could apply to join the IEA.

¶10. (SBU) I believe your visit will advance discussions for partnership in many arenas, and I extend a warm welcome to you and your staff.

Cunningham